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Exporting: How It Can Benefit Hawai'i and California Businesses

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Abstract

Data clearly show that exporting can benefit businesses in Hawai'i and California. This article presents essential and practical details about exporting and concludes with implications for state and federal government agencies, financial institutions, and business owners.

Introduction

As the U.S. enters its sixth year of economic downturn and the federal government looks for ways to revitalize a declining domestic market, it is becoming evident that exporting can become a means of providing revenues for businesses and a boost to the economy. Although the U.S. boasts of having a robust consumer market, nearly 96 percent of all consumers and more than two-thirds of the world's purchasing power lie outside of America. Productivity gains in the U.S. and emerging-market demand growth should continue to boost export growth. Yet American businesses sell only 1 percent of their goods abroad. Of the nearly 30 million Small and Medium-sized Enterprises (SMEs) in the U.S., the majority, 58 percent, export to only one country.

In a 2009–2010 Census Bureau report on identifiable U.S. companies that import and export (U.S. Census Bureau News 2012), researchers categorized the more than 1.2 million businesses into three categories: companies that export and import (80,640), import only (101,008), and export only (212,491). Of importance is that the largest proportion, 16.6 percent, were export-only businesses, firms that are more likely to be SMEs and were the focus of the Small Business Jobs Act of 2010, legislation aimed at funding programs to assist small

businesses to export. Of the export-only group, 266.4 thousand were single-location companies (companies that were located at only one place), which contributed 25.4 percent or \$288,959,290 of known export revenues.

Exports by State

In the 2010 Census Bureau data on identified exporting companies, five states were identified as leading exporters: California, Florida, New York, Texas, and Illinois. Given California's top export rank, its physical proximity to Hawai'i, and the similarity between California's and Hawai'i's ethnic mix, California was selected for comparison purposes in this article.

According to Department of Commerce, in 2009, a total of 678 and 57,915 companies exported from Hawai'i and California respectively. The majority of these exporting companies (96%) were SMEs with fewer than 500 employees. On a national level, California is a significant "identified exporter" in terms of number of exporters and dollar value of its exports. In 2010 almost 1 in 4 exporters were California businesses (24.6% of 293,131 total exporters), and 11.2% of U.S. export dollars came from California exporting. Table 1 provides relevant export information, including exports by origin of movement and dollar value for identified companies.

Advantages of Exporting

The reasons for businesses to consider exporting are compelling, and the advantages are many. The primary advantage is boosting sales and profits of businesses by achieving a share of the global market and, in the process, enhancing domestic competitive-

Table 1. Export statistics for U.S., Hawai'i, and California.

	U.S.	Hawai'i	California
Identified companies in 2010			
Exporters	293,131	Not available	Not available
Importers and Exporters	80,640	Not available	Not available
Known value of exports by origin of movement (in millions) in 2010	\$1,278,263	\$684	\$143,192
U.S. exports of top 5 commodities in 2010	Canada, Mexico, China, Japan, United Kingdom	Japan, Australia, Netherlands, China, Singapore	Mexico, Canada, China, Japan, South Korea
Future trade countries based on largest markets in 2011	Mexico, Canada, China, Hong Kong, Brazil	Canada, Australia, China, Singapore, South Korea	Mexico, Canada, China, Japan, South Korea

ness. Other advantages include the potential to lower per-unit costs, the ability to compensate for seasonal fluctuations, gaining new knowledge and experience in a global market, and expanding the life of a product.

Challenges of Exporting

While the advantages of exporting by far outweigh the disadvantages, SMEs especially face challenges when venturing into the export market. Entering a foreign market requires careful planning, capital, market know-how, access to quality product or product modification, a competitive pricing strategy, cultural competency, and management commitment. Without them it is almost impossible to succeed in the export business. While there are no hard-and-fast rules that can help companies make a decision to export, understanding the advantages and disadvantages of exporting can help businesses smooth their entry into new markets, keep pace with competition, and eventually realize profit.

The Path to Exporting

Business owners may consider exporting for a variety of reasons. Some entrepreneurs think more broadly than others and design products and services specifically as exports; others begin by selling products domestically and then decide to export as a means of turning around flat sales. An ideal export scenario is the example of

a clothing designer who identifies “Made in the U.S.” as his mantra and designs high-quality aloha shirts for exporting. To establish his name and to generate sales, he first markets his shirts locally in Hawai'i. Next he exports the aloha shirts to Japan and China to expand the sales and profits of his clothing business. He gathers support from the Hawai'i retail community to revive pride in Hawaiian wear by bringing back Aloha Friday, which includes the practice of wearing aloha shirts and muumuus on Fridays.

An example of a more conservative approach to exporting would be a business owner who has been selling pomegranate fruit products for the past five years. He had been convinced that “made in Hawai'i” was important to his target audience, middle class customers and “baby boomers,” but in recent years his sales have been flat and his customers have reported that his products are too expensive. His business is also facing competition from other producers of pomegranate juice and other fruit juices. What are his options? The business owner wants to consider markets other than local and domestic ones and receives information and assistance using resources such as www.export.gov and www.exportuniversity.com to help identify key export markets.

Another example we want to highlight is that of a small B2B (business-to-business) company providing data acquisition, database development, and manage-

ment to several businesses in California. In light of the economic downturn, the owner realizes that a domestic market will not be able to sustain her firm. While she wants to export, she is cognizant that she does not have the experience to directly market her services in a foreign country. Although direct marketing would allow her to keep all of her profit margin, she does not have the contacts to build networks, negotiate deals, and carry out her business in other countries.

With help from the Small Business Administration, the owner has identified a reliable distributor in the export country and has filed for necessary licensing. Selling through an intermediary is known as indirect exporting and is a relatively cheap and straightforward way to enter a foreign market. The distributor has identified end users in target export countries that would benefit from the use of B2B services. Although this process is relatively straightforward, the distributor is asking for an “open account” term of at least nine months out to collect payments. The owner is worried about getting paid. How can this small exporter/owner get help, and whom should she turn to?

The official export credit agency of the U.S. is one source of help with risk mitigation insurance and assistance with obtaining working capital. Export-Import Bank of the United States (www.exim.gov) offers insurance products such as foreign buyer nonpayment, guaranteed credit line, and foreign buyer term financing that can be obtained from participating banks and insurance companies. To qualify, a small business (less than 500 employees) must prove that at least 50 percent of its production cost (including rent) occurs in the U.S. and that it has a value-added end product. Small businesses are also required to show proof that they have the financial strength to qualify for Ex-Im Bank-sponsored insurance. However, with Ex-Im Bank's backing, businesses are relieved of their fear of nonpayment when exporting.

Considerations Before You Decide to Export

Although the aforementioned examples cover some important aspects of exporting and the resources available for exporters, there are many considerations that must be carefully reviewed before arriving at a decision to export. Here we present you with a comprehensive and practical checklist:

- **Information gathering:** Know before you go. It is important to understand the culture of exports before taking the plunge. A potential exporter can save a lot of money by gathering information by him- or herself. Export counseling, information, and training are available from several product-specific federal and state government agencies. Export seminars and trade commission visits to foreign countries are other ways to gather firsthand knowledge of exporting to specific countries.
- **Planning ahead:** Although there are examples of businesses that have failed at selling a product domestically but have succeeded as exporters, exporting is generally best envisioned in the original business plan. To succeed as an exporter a business ideally needs to start with a strong business export plan that addresses the firm's level of resources. Next, the plan needs to be augmented with help from counselors/mentors who can guide the business owner to learn how to handle foreign industry blocks, which can include currency risks as well as government barriers such as dealing with foreign middlemen.
- **Firm-specific resources:** Do you have time to deal with exports? Can you adjust your promotional activities to market effectively? Do you have sufficient working capital? Can you meet the quality standard for export products? Can you navigate through foreign distribution channels?
- **Personnel:** Do you have enough personnel? Are you familiar with exporting? If you have limited experience with exporting, do you have a mentor or counselor to help you navigate the process?
- **Export management:** Build long-term solid relationships with local partners; treat your customer as a partner; identify retail chains, distributors, local partners, freight considerations, packaging, consolidations, regulatory obstacles, and distributor match-making.
- **Export marketing:** Localize your brand. Maximize impact at overseas trade shows; utilize machine-operated translations for websites; learn how to navigate through foreign business culture.
- **Foreign exchange risk:** The political and economic instability that exists in some emerging markets may

increase foreign exchange risk, i.e., the risks connected to the fluctuations of the country's currency. A decrease in exchange rate may cause the loss of value of assets denominated in foreign currencies. Similarly, an increase in exchange rate may mean an increase in the domestic currency value of liabilities denominated in foreign currencies. All these risks can generate additional costs, in terms of both imports and exports.

- **Nonpayment:** Obtaining payment guarantees is a major issue for SMEs in emerging markets, which can be characterized by a combination of fragile banking system, strong legal constraints, high level of corruption, and high exposure to transfer risk. All of these represent difficulties for local businesses, which can quickly find themselves unable to meet their payment terms. In such cases, the exporting SME has to deal with nonpayment. To ensure maximum protection against these risks, it is important to perform certain checks once a trading partner (buyer or seller) has been identified in the country: checking the buyer's or seller's creditworthiness, monitoring the buyer's or seller's credit risk, and checking the buyer/seller's payment history.
- **Logistics risks:** Protection of the logistics system, including the operational management of physical flows of goods, orders, and stock, is a major issue for SMEs wishing to import/export from/to an emerging market. The main risks for SMEs in emerging markets are related to transit times, problems of the supply chain, and the complexity of customs clearance. In order to guard against these risks, it is essential to be careful in drafting sales contracts and purchase contracts, while paying particular attention to the legal clauses of the offer, and to rely on the international standardized system of incoterms, which define the duties and obligations of sellers and buyers as part of international commercial transactions. It is also recommended to create a safety stock.
- **Intellectual property risk:** Risk related to intellectual property rights is larger in the emerging markets, where the legislation in this area may sometimes be inadequate. Regardless of its area of activity, a company may fall victim to counterfeiting of its patents, trademarks, industrial designs and models, which will have a negative impact on its image. The management of intellectual property risk relies on both legal tools and insurance solutions, such as li-

ability insurance or other specific types of insurance contracts.

- **Political risk:** The current social and political situation of some emerging countries may be confusing and its future development uncertain. For foreign businesses, this creates a number of specific risks, not only physical (the security of local staff, repatriation), but also economic (the adoption of restrictive measures by the government, such as imposing limits on repatriation of funds; expropriations; nationalizations, etc.)
- **Cultural risk:** Working in a foreign market also means understanding the particularities of the local marketplace. In different contexts, the same action can indeed have very different consequences. For the SME there exists a real risk of failing to understand local laws and regulations, as well as the way in which foreign partners operate. It is also essential to enquire in advance about the country's rules of communication and trading and about its cultural values and variations, and to rely on a network of reliable partners who are perfectly integrated into the local environment. It is also possible to use the services of a trading company or an international assistance company, which can free you of some of the work necessary for understanding the target country. For an SME that wishes to export this is often a much more efficient option and one that enables it to successfully complete its project much more quickly.

Implications

This article offers several implications for businesses that are already engaged in exports and for businesses considering venturing into the export market.

Implications for state and federal government agencies. Government can support exporting not only by promoting rules and regulations that reduce institutional barriers and the cost of doing business, but also by funding websites and outreach programs that are relevant, affordable, and readily accessible. State and federal governments can improve the information-gathering ability of business owners if they provide more relevant state of origin-level data about what is being exported from each state, where the commodities and services are exported to, and the dollar value of those exports. Federal agencies such as the Census Bureau (census.gov) provide access to large datasets such as the Survey of Business Owners

that are useful to researchers and statisticians, but not necessarily to business owners. Trade.gov, a Department of Commerce website, provides state-level data, but, like the Census Bureau, it reports export statistics as State of the Origin of Movement, which does not capture exports from the state of origin.

One way to reach more business owners is to deliver consulting services electronically through existing government-sponsored websites. Instead of meeting one-on-one with a “coach,” the business owner can download a checklist of export management and marketing questions that will help her or him to 1) determine if he/she is ready to export and 2) identify the next steps once a decision to export has been made. Websites can also provide information about the country's policies and procedures relating to foreign distribution channels, transport costs, exchange rates, and nonpayment.

Another important aspect that could benefit businesses doing exporting is the understanding of cultural norms and expectations and the business environment of various countries. With expanded mentoring services, the business owner can be moved to the stage of developing an export business plan and a plan of action for handling challenges unique to exporting.

Implications for financial institutions. By understanding the complexity of starting an export business, banks and other financial institutions can assist prospective exporters to make it simpler for them to obtain credit or business loans. When business owners work with outreach counselors to develop an export plan, the businesses will be able to document the viability of their business venture, and lenders may be more willing to extend credit. Public policymakers and community advocates need to be informed about the additional challenges that exporters face from institutional and foreign industry roadblocks so they know how to streamline export licensing and documentation and standardize the payment process.

Implications for business owners. While exporting will not guarantee instant success, it enables a business to spread its risk across a wider international market and helps it to boost its overall sales and revenues, keys to business viability over a firm's life cycle. Even though the prospect of exporting is daunting and SMEs tend to be risk averse, businesses could benefit greatly from

considering that option during their initial business development stage instead of adding it on when domestic sales wane. If direct exporting is too overwhelming to a small business owner, she or he might want to consider the formation of cooperatives or the use of indirect exporting. United Nations has declared 2012 the Year of the Cooperative, and businesses could benefit from pooling their resources, cutting down their overhead, and finding economies of scale by creating cooperatives to promote exporting.

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Resources for Businesses

Export-Import Bank of the U.S.:

www.exim.gov

Export.gov Helping U.S. Companies Export:

www.export.gov

Export University:

www.exportuniversity.com

Agricultural Export Program, California Department of Food and Agriculture:

www.export.cdffa.ca.gov/default.htm

Hawai'i Department of Agriculture:

www.hawaii.gov/hdoa

Minority Business Development Agency (MBDA):

www.mbda.gov

Office of Trade and Industry Information, International Trade Administration, U.S. Department of Commerce:

www.trade.gov/mas/ian/otii

U.S. Bureau of Census, Bureau of Economic Analysis-U.S. Importing and Exporting Companies, Survey of Business Owners:

www.census.gov/econ/sbo

U.S. Small Business Administration:

www.sba.gov